

AUDITING PROCEDURES REPORT

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF EAST TAWAS	County IOSCO
Audit Date 09/30/2004	Opinion Date 12/06/2004	Date Accountant Report Submitted to State: 02/15/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



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CITY OF EAST TAWAS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2004

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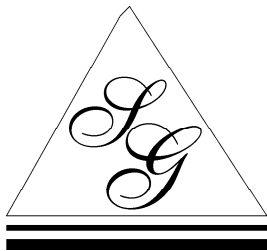
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December 6, 2004

Independent Auditors' Report

Members of the City Council
City of East Tawas
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the City of East Tawas' basic financial statements, as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit. The financial statements, reported discretely, reflect total assets of \$1,791,609 as of December 31, 2003, and total revenues of \$452,849 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2004, on our consideration of the City of the East Tawas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the City of East Tawas has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments*, as of September 30, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Members of the City Council
City of East Tawas
December 6, 2004
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Grubb & Co., P.C.

City of East Tawas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component unit reported separately from the primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

Financial Highlights

Financial Highlights

The City's assets exceeded its liabilities by \$14,886,470. Business-type activities (Enterprise Funds) account for \$9,676,022 of this total.

The City's total net assets increased by \$1,108,229. This is a 7.45% increase and is primarily due to road improvements and property and equipment purchases.

The City's governmental funds reported a combined ending fund balance of \$2,669,005 this year, a decrease of \$373,314. Of this amount, \$2,602,035 is available for spending (*unreserved fund balance*) on behalf of its citizens. The decrease in governmental funds ending fund balance is primarily due to bond proceeds received in fiscal year 2003 which were expended for road construction in fiscal year 2004. The General Fund 2003/2004 fiscal year end fund balance is \$1,039,460. This reflects an increase of \$161,806 over fiscal year 2002/2003. This is primarily due to the sale of a parcel of property for \$105,000. This parcel of property, developed as an assisted living facility, will add to the City's tax base.

The City's total bonded indebtedness was reduced by \$491,697. No new debt was issued.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$12,783,914. The City performed an inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Major Street Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Local Street Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes, Federal aid for local street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.
- TIFA Fund – This fund accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.
- Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.
- City Park Fund – This fund accounts for funds received for constructing, operating and maintaining the City's park facilities.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as the fiscal agent.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. Exhibit L notes 1 – 17; pages 22 through 47 provide an expansive and thorough view of various aspects of the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government -Wide Financial Analysis

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government -wide data will be presented.

Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2004:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
Current Assets	\$ 3,793,428	\$ 1,725,470	\$ 5,518,898
Restricted Assets	0	645,186	645,186
Noncurrent Assets	<u>5,375,053</u>	<u>11,095,328</u>	<u>16,470,381</u>
Total Assets	<u>9,168,481</u>	<u>13,465,984</u>	<u>22,634,465</u>

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
Current Liabilities	\$ 1,212,986	\$ 408,940	\$ 1,621,926
Long-Term Liabilities	<u>2,745,047</u>	<u>3,381,022</u>	<u>6,126,069</u>
Total Liabilities	<u>3,958,033</u>	<u>3,789,962</u>	<u>7,747,995</u>
Net Assets			
Invested in Capital Assets, Net of Debt	1,911,171	6,251,073	8,162,244
Restricted	66,970	645,186	712,156
Unrestricted	<u>3,232,307</u>	<u>2,779,763</u>	<u>6,012,070</u>
Total Net Assets	<u>\$ 5,210,448</u>	<u>\$ 9,676,022</u>	<u>\$ 14,886,470</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of East Tawas, through its governing body, i.e., city council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for Services	\$ 139,837	\$ 1,339,221	\$ 1,479,058
Operating Grants and Contributions	294,342	49,769	344,111
Capital Grants and Contributions	<u>440,917</u>	<u>0</u>	<u>440,917</u>
Total Program Revenues	<u>875,096</u>	<u>1,388,990</u>	<u>2,264,086</u>
Program Expenses:			
General Government	588,953	0	588,953
Public Safety	404,236	0	404,236
Public Works	595,493	0	595,493
Community and Economic Development	63,884	0	63,884
Recreation and Cultural	133,452	0	133,452
Interest on Long-Term Debt	139,950	0	139,950
Sewer Expenses	0	420,533	420,533
Water Services	0	459,306	459,306
City Park Services	<u>0</u>	<u>579,652</u>	<u>579,652</u>
Total Program Expenses	<u>1,925,968</u>	<u>1,459,491</u>	<u>3,385,459</u>
Net Program Expenses	<u>(1,050,872)</u>	<u>(70,501)</u>	<u>(1,121,373)</u>

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>Total</u>
General Revenues:			
Property Taxes	\$ 1,118,471	\$ 316,410	\$ 1,434,881
State Revenue Sharing	309,325	0	309,325
Rent Income	252,519	31,152	283,671
Investment Earnings and Miscellaneous	68,213	35,449	103,662
Gain (Loss) on Sale/Disposal of Capital Assets	105,000	(6,937)	98,063
Transfers – Internal Activity	<u>182,575</u>	<u>(182,575)</u>	<u>0</u>
Total General Revenues and Transfers	<u>2,036,103</u>	<u>193,499</u>	<u>2,229,602</u>
Change in Net Assets	<u>\$ 985,231</u>	<u>\$ 122,998</u>	<u>\$ 1,108,229</u>

Governmental Activities

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities* and illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$875,096 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$1,925,968 for these same activities. The largest expenses were incurred by General Government offices (\$588,953), Public Works (\$595,493) and Public Safety (\$404,236).

Business -Type Activities

City of East Tawas's *Business-Type activities* are limited to the Sewer, Water and City Park Funds.

Financial Analysis of City Funds

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Major Street Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts; 3) Local Street Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes, Federal aid for local street purposes, and general fund appropriations as well as State Trunkline maintenance contracts; 4) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses

from prior UDAG monies; and 5) TIFA Fund – accounts for the administration and activities of funds spent in accordance with the Tax Increment Financing plan.

This year's City audit, following GASB 34 format, shows 14 governmental funds. These funds are maintained by the City as separate units in the general ledger.

Enterprise Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments and the City Park comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I, pages 17 through 19.

Budgetary Highlights

General Fund Budgetary Highlights

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Major Street Fund, Water Fund, Sewer Fund and Park Fund.

During the fiscal year ended September 30, 2004 the City Council amended the budget to take into account events occurring during the year. These budget amendments fall into three categories:

- Changes made to reflect the purchase and the sale of property
- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

The General Fund actual revenue was \$1,448,683. That amount is above both the original budget estimate of \$1,408,660 and the final amended budget estimate of \$1,436,665. The variance between the actual revenues, the original budget and the final budget was the result of increased revenues from various sources.

The actual expenditures of the General Fund were \$1,451,445, which is above the original budget estimates of \$1,335,085 and below the final amended budget estimates of \$1,534,510. The variance between the actual expenditures and the original budget was primarily due to a property purchase for a parking lot in the downtown area. The variance between the actual expenditures and the final budget was due to decreased spending in various areas.

The General Fund had total revenues of \$1,448,683 and total expenditures of \$1,451,445.

Operating transfers in of \$282,575 include \$142,575 from revenues of the City Park which was then paid to the Building Authority as rent for the City Hall and Community Center. The Building Authority then used that money as payment of principal and interest for the bond issue for construction of the City Hall and Community Center. Operating transfers in also includes \$140,000 from the Tax Increment Finance Authority as partial payment for the purchase of property for a parking lot in the downtown area. The balance of the cost of this purchase was paid through a special assessment of downtown property owners.

Operating transfers out include \$110,000 to the Intragovernmental Service Fund for equipment replacement; \$45,507 to the Community Center Fund for City Hall operations paid through the Community Center budget; and \$67,500 to the Major Street Fund which represents one mill of taxes earmarked by the City Council for road improvements.

Sale of fixed assets of \$105,000 resulted from the sale of a parcel of property in the Tawas Lake area.

This results in an ending fund balance of \$1,039,460.

Major Street Fund Budgetary Highlights

The Major Street Fund actual revenue was \$611,313. That amount is above the original budget estimate of \$275,050 and below the final amended budget estimate of \$1,190,525. Three major street projects that involved State and Federal grants occurred in the City during the 2003/2004 fiscal year. These projects include the following:

- Newman Street from U.S. 23 to Lincoln Street
- East Lincoln from Grant Street to North Tawas Beach Road
- U.S. 23 from Tawas Beach Road to Wadsworth Street.

The variance between the actual revenues and the original and final amended budgets is due to the completion of the U.S. 23 from Tawas Beach Road to Wadsworth Street project being delayed until fiscal year 2004/2005.

The actual expenditures of the Major Street Fund were \$1,143,505 which is above the original budget estimate of \$961,425 and below the final amended budget of \$1,878,700. The variance between the actual expenditures and the final amended budget are due to two factors. The U.S. 23 project was not completed until fiscal year 2004/2005 so expenses during fiscal year 2003/2004 were less than anticipated. Reconstruction of Newman Street from Washington Street to Tawas Lake Road began during fiscal year 2003/2004. It was anticipated that this project would be completed during the fiscal year. Construction delays caused the project to remain unfinished at the end of the fiscal year resulting in expenditures less than anticipated during this audit period.

The Major Street Fund had total revenues of \$611,313 and total expenditures of \$1,143,505.

Operating transfers in include \$538,401 from the Major Street Construction Fund which was proceeds from a 2003 bond issue for Newman Street from Washington Street to Tawas Lake Road.

Operating transfers out include \$54,491 to the Debt Service Fund which was the payment of principal and interest on the bond issue and \$20,000 to the Local Street Fund.

This activity resulted in a decrease in fund balance of \$68,282 leaving the Major Street Fund with a fund balance of \$139,457.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$4,701,135 with an ending balance of \$6,085,865. Governmental Activities Total Capital Assets – Net of Depreciation was \$4,636,171.

Capital Assets - Business Type Activities beginning balance was \$13,891,236 with an ending balance of \$13,973,655. Business-Type Activities Total Capital Assets – Net of Depreciation was \$8,147,743. An expanded and detailed presentation may be seen in Note 9 of the audit, notes to financial statements.

Long-Term Debt

At year's end, long-term debt (due in more than one year) amounted to \$5,641,422. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors and Next Year's Budget and Rates

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over half of the City's General Fund revenues. Due to new construction and increased property values, the City will be collecting more in property taxes in 2004/2005 than it did in 2003/2004 while levying the same operating millage rate since 2002. The Council was able to lower the millage rate for debt service in 2004/2005 by .25 mills due to the retirement of a bond issue for the sewer system and a lower share of the bond payments for the Water Treatment Plant.

Revenue sharing from the State of Michigan is the next largest revenue source for the City and this source is beyond the control of the City. As revenue estimates for the State continue to decline, the City may receive less funds than are currently budgeted. Currently the budget anticipates the use of undesignated fund balance to cover any expenditures that exceed current year revenues. The City realized an 18% increase in fund balance in 2003/2004 and these funds will be used to cover any shortfall in revenues.

Employee related costs account for approximately 25% of the General Fund expenditures. Contracted and professional services account for approximately 23% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 20%. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The City Council and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Tawas Clerk's office located at 760 Newman Street, P.O. Box 672, East Tawas, Michigan, 48730.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
September 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	East Tawas Housing Commission
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,267,679	\$ 842,119	\$ 2,109,798	\$ 66,695
Investments (Note 3)	1,447,663	500,319	1,947,982	0
Receivables:				
Special assessments	10,340	0	10,340	0
Accounts	4,629	79,866	84,495	9,522
Interest	0	0	0	1,349
Due from state	9,768	0	9,768	0
Due from fiduciary funds (Note 4)	1,029,991	315,633	1,345,624	0
Due from component unit (Note 4)	10,891	0	10,891	0
Internal balances	12,467	(12,467)	0	0
Prepaid expenses	0	0	0	46,500
Total current assets	<u>3,793,428</u>	<u>1,725,470</u>	<u>5,518,898</u>	<u>124,066</u>
Restricted assets:				
Cash and cash equivalents (Note 3)	0	186,132	186,132	0
Investments (Note 3)	0	459,054	459,054	0
Total restricted assets	<u>0</u>	<u>645,186</u>	<u>645,186</u>	<u>0</u>
Noncurrent assets:				
Notes receivable	738,882	0	738,882	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,318,985	1,318,985	0
Investment in Iosco County Waste Water Treatment Plant (Note 8)	0	1,628,600	1,628,600	0
Capital assets, net (Note 9)	<u>4,636,171</u>	<u>8,147,743</u>	<u>12,783,914</u>	<u>1,622,637</u>
Total noncurrent assets	<u>5,375,053</u>	<u>11,095,328</u>	<u>16,470,381</u>	<u>1,622,637</u>
Total Assets	<u>9,168,481</u>	<u>13,465,984</u>	<u>22,634,465</u>	<u>1,746,703</u>
<u>Liabilities</u>				
Accounts payable	132,326	10,558	142,884	29,101
Accrued interest	55,588	73,309	128,897	0
Accrued liabilities	10,270	9,440	19,710	7,471
Due to state	3,375	0	3,375	0
Due to other governments	0	0	0	14,553
Deferred revenue	1,011,427	315,633	1,327,060	434
Long-term liabilities:				
Due within one year (Note 10)	165,000	319,647	484,647	100,000
Due in more than one year (Note 10)	<u>2,580,047</u>	<u>3,061,375</u>	<u>5,641,422</u>	<u>574,816</u>
Total Liabilities	<u>3,958,033</u>	<u>3,789,962</u>	<u>7,747,995</u>	<u>726,375</u>
<u>Net Assets</u>				
Investment in capital assets, net of related debt	1,911,171	6,251,073	8,162,244	952,637
Restricted for:				
Debt service	2,673	630,186	632,859	0
Replacement	0	15,000	15,000	0
Perpetual care	64,297	0	64,297	0
Unrestricted	<u>3,232,307</u>	<u>2,779,763</u>	<u>6,012,070</u>	<u>67,691</u>
Total Net Assets	<u>\$ 5,210,448</u>	<u>\$ 9,676,022</u>	<u>\$ 14,886,470</u>	<u>\$ 1,020,328</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

					Net (Expense) Revenue and Changes in Net Assets			
Function/Program	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas Housing Commission
Primary Government:								
Governmental activities:								
General government	\$ 588,953	\$ 25,219	\$ 551	\$ 0	\$ (563,183)	\$ 0	\$ (563,183)	
Public safety	404,236	75,331	1,368	0	(327,537)	0	(327,537)	
Public works	595,493	10,006	289,074	400,917	104,504	0	104,504	
Community and economic development	63,884	0	0	40,000	(23,884)	0	(23,884)	
Recreation and cultural	133,452	29,281	3,349	0	(100,822)	0	(100,822)	
Interest and fiscal charges	139,950	0	0	0	(139,950)	0	(139,950)	
Total governmental activities	1,925,968	139,837	294,342	440,917	(1,050,872)	0	(1,050,872)	
Business-type activities:								
Sewer services	420,533	367,016	49,769	0	0	(3,748)	(3,748)	
Water services	459,306	359,064	0	0	0	(100,242)	(100,242)	
City park services	579,652	613,141	0	0	0	33,489	33,489	
Total business-type activities	1,459,491	1,339,221	49,769	0	0	(70,501)	(70,501)	
Total primary government	\$ 3,385,459	\$ 1,479,058	\$ 344,111	\$ 440,917	(1,050,872)	(70,501)	(1,121,373)	
Component Unit:								
Housing Commission	\$ 443,531	\$ 227,930	\$ 218,054	\$ 0				\$ 2,453
General Revenues:								
Property taxes levied for:								
General operating					872,885	0	872,885	0
TIFA					245,586	0	245,586	0
Sewer debt service					0	152,894	152,894	0
Water debt service					0	163,516	163,516	0
State revenue sharing					309,325	0	309,325	0
Rent income					252,519	31,152	283,671	0
Interest and investment earnings					67,230	31,287	98,517	2,422
Gain (loss) on sale/disposal of capital assets					105,000	(6,937)	98,063	0
Other					983	4,162	5,145	4,443
Transfers - internal activity					182,575	(182,575)	0	0
Total general revenues and transfers					2,036,103	193,499	2,229,602	6,865
Change in net assets					985,231	122,998	1,108,229	9,318
Net assets - beginning of year, as restated (Note 2)					4,225,217	9,553,024	13,778,241	1,011,010
Net assets - end of year					\$ 5,210,448	\$ 9,676,022	\$ 14,886,470	\$ 1,020,328

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
September 30, 2004

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Federal Project Fund</u>	<u>TIFA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Cash and cash equivalents (Note 3)	\$ 118,716	\$ 219,816	\$ 154,899	\$ 176,621	\$ 394,607	\$ 203,020	\$ 1,267,679
Investments (Note 3)	891,478	0	100,646	151,104	100,527	203,908	1,447,663
Receivables:							
Special assessments	10,340	0	0	0	0	0	10,340
Accounts	3,311	0	0	918	0	400	4,629
Due from state	0	9,768	0	0	0	0	9,768
Notes receivable	0	0	0	738,882	0	0	738,882
Due from component unit (Note 4)	10,891	0	0	0	0	0	10,891
Due from other funds (Note 4)	<u>934,128</u>	<u>14,709</u>	<u>3,253</u>	<u>0</u>	<u>118,306</u>	<u>463</u>	<u>1,070,859</u>
Total Assets	<u>\$ 1,968,864</u>	<u>\$ 244,293</u>	<u>\$ 258,798</u>	<u>\$ 1,067,525</u>	<u>\$ 613,440</u>	<u>\$ 407,791</u>	<u>\$ 4,560,711</u>
<u>LIABILITIES AND FUND EQUITY</u>							
Liabilities:							
Accounts payable	\$ 27,842	\$ 97,558	\$ 3,910	\$ 0	\$ 0	\$ 3,016	\$ 132,326
Accrued liabilities	8,001	645	606	0	0	1,018	10,270
Due to state	0	3,375	0	0	0	0	3,375
Due to other funds (Note 4)	440	3,258	0	0	0	24,703	28,401
Deferred revenue	<u>893,121</u>	<u>0</u>	<u>0</u>	<u>705,907</u>	<u>118,306</u>	<u>0</u>	<u>1,717,334</u>
Total liabilities	<u>929,404</u>	<u>104,836</u>	<u>4,516</u>	<u>705,907</u>	<u>118,306</u>	<u>28,737</u>	<u>1,891,706</u>
<u>Fund Equity</u>							
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	2,673	2,673
Perpetual care	0	0	0	0	0	64,297	64,297
Unreserved, reported in:							
General Fund	1,039,460	0	0	0	0	0	1,039,460
Special revenue funds	0	139,457	254,282	361,618	495,134	180,766	1,431,257
Capital projects fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>131,318</u>	<u>131,318</u>
Total fund equity	<u>1,039,460</u>	<u>139,457</u>	<u>254,282</u>	<u>361,618</u>	<u>495,134</u>	<u>379,054</u>	<u>2,669,005</u>
Total Liabilities and Fund Equity	<u>\$ 1,968,864</u>	<u>\$ 244,293</u>	<u>\$ 258,798</u>	<u>\$ 1,067,525</u>	<u>\$ 613,440</u>	<u>\$ 407,791</u>	<u>\$ 4,560,711</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2004

Total governmental fund balances:		\$ 2,669,005
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	\$ 6,085,865	
Capital asset accumulated depreciation	<u>(1,449,694)</u>	
		4,636,171
Other long-term assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:		
Notes receivable		705,907
Accrued interest on long-term debt		(55,588)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Compensated absences payable	(20,047)	
Bonds payable	<u>(2,725,000)</u>	
Total long-term liabilities		<u>(2,745,047)</u>
Total net assets - governmental activities		<u>\$ 5,210,448</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	General	Major Streets	Local Streets	Federal Project Fund	TIFA Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>							
Current property taxes	\$ 872,885	\$ 0	\$ 0	\$ 0	\$ 245,586	\$ 0	\$ 1,118,471
Federal grants	0	337,247	0	0	0	0	337,247
State grants and revenue	309,325	273,113	79,631	0	0	0	662,069
Charges for services	85,862	0	0	0	0	27,887	113,749
Licenses and permits	1,671	0	0	0	0	0	1,671
Interest and rentals	130,950	953	2,294	27,394	4,303	168,550	334,444
Other revenue	47,990	0	0	76,282	0	7,983	132,255
Total revenue	<u>1,448,683</u>	<u>611,313</u>	<u>81,925</u>	<u>103,676</u>	<u>249,889</u>	<u>204,420</u>	<u>2,699,906</u>
<u>Expenditures</u>							
Current:							
General government	501,971	0	0	0	0	11,996	513,967
Public safety	351,011	0	0	0	0	0	351,011
Public works	339,430	155,639	63,478	0	0	0	558,547
Community and economic development	46,658	0	0	84,771	0	0	131,429
Recreation and cultural	32,201	0	0	0	0	96,864	129,065
Capital outlay	180,174	987,866	0	0	47,577	169,113	1,384,730
Debt service:							
Principal	0	0	0	0	0	160,000	160,000
Interest and fiscal charges	0	0	0	0	0	132,046	132,046
Total expenditures	<u>1,451,445</u>	<u>1,143,505</u>	<u>63,478</u>	<u>84,771</u>	<u>47,577</u>	<u>570,019</u>	<u>3,360,795</u>
Excess of revenue over (under) expenditures	<u>(2,762)</u>	<u>(532,192)</u>	<u>18,447</u>	<u>18,905</u>	<u>202,312</u>	<u>(365,599)</u>	<u>(660,889)</u>
Other Financing Sources (Uses):							
Sale of fixed assets	105,000	0	0	0	0	0	105,000
Operating transfers in	282,575	538,401	20,000	0	0	344,868	1,185,844
Operating transfers out	(223,007)	(74,491)	0	0	(234,730)	(471,041)	(1,003,269)
Total other financing sources (uses)	<u>164,568</u>	<u>463,910</u>	<u>20,000</u>	<u>0</u>	<u>(234,730)</u>	<u>(126,173)</u>	<u>287,575</u>
Excess of revenue and other sources over (under) expenditures and other uses	161,806	(68,282)	38,447	18,905	(32,418)	(491,772)	(373,314)
Fund balances - beginning of year	<u>877,654</u>	<u>207,739</u>	<u>215,835</u>	<u>342,713</u>	<u>527,552</u>	<u>870,826</u>	<u>3,042,319</u>
Fund balances - end of year	<u>\$ 1,039,460</u>	<u>\$ 139,457</u>	<u>\$ 254,282</u>	<u>\$ 361,618</u>	<u>\$ 495,134</u>	<u>\$ 379,054</u>	<u>\$ 2,669,005</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

Total net change in fund balances - governmental funds	\$	(373,314)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (169,940)	
Capital assets reported as capital outlays in the governmental funds	<u>1,384,730</u>	
Net difference		1,214,790

Principal repayments on notes are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Bonds payable		160,000
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Net change in accrued interest on long-term liabilities:

Accrued interest on long-term liabilities September 30, 2003	47,684	
Accrued interest on long-term liabilities September 30, 2004	<u>(55,588)</u>	
Net change		(7,904)

Net change in accrued compensated absences:

Accrued compensated absences September 30, 2003	19,576	
Accrued compensated absences September 30, 2004	<u>(20,047)</u>	
Net change		(471)

Note receivable principal loans and repayments are expenditures and revenue in the governmental funds, but the loans and repayments increase and reduce the note receivable balance in the statement of net assets. The activity reported in the governmental funds is as follows:

Current year note receivable loan disbursements	68,412	
Current year note receivable principal receipts	<u>(76,282)</u>	
		<u>(7,870)</u>

Change in net assets of governmental activities	\$	<u>985,231</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
September 30, 2004

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 145,087	\$ 258,496	\$ 438,536	\$ 842,119
Investments (Note 3)	205,129	285,190	10,000	500,319
Accounts receivable	41,914	37,952	0	79,866
Due from other funds (Note 4)	162,207	153,866	0	316,073
Total current assets	554,337	735,504	448,536	1,738,377
Restricted assets:				
Cash and cash equivalents (Note 3)	115,571	70,561	0	186,132
Investments (Note 3)	332,517	126,537	0	459,054
Total restricted assets	448,088	197,098	0	645,186
Noncurrent assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,318,985	0	1,318,985
Investment in Iosco County Waste Water Treatment Plant (Note 8)	1,628,600	0	0	1,628,600
Capital assets, net (Note 9)	2,377,260	3,177,596	2,592,887	8,147,743
Total noncurrent assets	4,005,860	4,496,581	2,592,887	11,095,328
 Total Assets	5,008,285	5,429,183	3,041,423	13,478,891
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	2,894	48	7,616	10,558
Accrued interest	24,515	48,794	0	73,309
Accrued liabilities	2,031	2,263	5,146	9,440
Due to other funds (Note 4)	663	678	11,566	12,907
Deferred revenue	162,083	153,550	0	315,633
Contracts payable, current (Note 10)	122,624	112,023	0	234,647
Revenue bonds payable, current (Note 10)	60,000	25,000	0	85,000
Total current liabilities	374,810	342,356	24,328	741,494
Noncurrent liabilities:				
Compensated absences (Note 10)	299	299	7,472	8,070
Contracts payable (Note 10)	693,592	784,713	0	1,478,305
Revenue bonds payable (Note 10)	225,000	1,350,000	0	1,575,000
Total noncurrent liabilities	918,891	2,135,012	7,472	3,061,375
 Total Liabilities	1,293,701	2,477,368	31,800	3,802,869
<u>Net Assets</u>				
Investment in capital assets, net of related debt	2,092,260	1,565,926	2,592,887	6,251,073
Restricted for:				
Debt service	433,088	197,098	0	630,186
Replacement	15,000	0	0	15,000
Unrestricted	1,174,236	1,188,791	416,736	2,779,763
Total Net Assets	\$ 3,714,584	\$ 2,951,815	\$ 3,009,623	\$ 9,676,022

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
For the Year Ended September 30, 2004

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges for services	\$ 358,841	\$ 353,312	\$ 613,141	\$ 1,325,294
Service connection charges	2,600	0	0	2,600
Penalties	5,575	5,752	0	11,327
Rentals	0	31,152	0	31,152
Miscellaneous	56	394	3,712	4,162
Total operating revenue	<u>367,072</u>	<u>390,610</u>	<u>616,853</u>	<u>1,374,535</u>
<u>Operating Expenses</u>				
Salaries	37,218	34,428	168,379	240,025
Fringe benefits	20,749	20,488	37,735	78,972
Advertising	0	0	1,031	1,031
Contracted services	196,843	153,426	4,240	354,509
Operating supplies	3,998	5,004	10,542	19,544
Insurance	5,315	4,719	28,816	38,850
Repairs and maintenance	8,091	1,030	30,770	39,891
Travel and training	490	0	0	490
Utilities	5,154	0	75,790	80,944
Other	0	350	10,021	10,371
Depreciation	78,909	115,987	212,328	407,224
Total operating expenses	<u>356,767</u>	<u>335,432</u>	<u>579,652</u>	<u>1,271,851</u>
Operating income	<u>10,305</u>	<u>55,178</u>	<u>37,201</u>	<u>102,684</u>
<u>Non-operating Revenue (Expenses)</u>				
Current property taxes	152,894	163,516	0	316,410
Interest income	15,948	13,305	2,034	31,287
Contributions	49,769	0	0	49,769
Loss on disposal of fixed assets	0	0	(6,937)	(6,937)
Interest expense and paying agent fees	(63,766)	(123,874)	0	(187,640)
Total non-operating revenue (expenses)	<u>154,845</u>	<u>52,947</u>	<u>(4,903)</u>	<u>202,889</u>
Income before operating transfers	165,150	108,125	32,298	305,573
<u>Other Financing Uses</u>				
Operating transfers out	<u>0</u>	<u>0</u>	<u>(182,575)</u>	<u>(182,575)</u>
Change in net assets	165,150	108,125	(150,277)	122,998
Net assets - beginning of year, as restated (Note 2)	<u>3,549,434</u>	<u>2,843,690</u>	<u>3,159,900</u>	<u>9,553,024</u>
Net assets - end of year	<u>\$ 3,714,584</u>	<u>\$ 2,951,815</u>	<u>\$ 3,009,623</u>	<u>\$ 9,676,022</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
For the Year Ended September 30, 2004

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts from customers	\$ 377,026	\$ 394,878	\$ 616,853	\$ 1,388,757
Payments for operating expenses	(276,879)	(218,997)	(365,058)	(860,934)
Receipts from operating grants and contributions	49,769	0	0	49,769
Interest received	0	0	3	3
Net cash provided by operating activities	<u>149,916</u>	<u>175,881</u>	<u>251,798</u>	<u>577,595</u>
<u>Cash Flows From Noncapital Financing Activities</u>				
Property taxes received	160,494	152,950	0	313,444
Cash paid to other funds	(9,472)	9,301	(181,195)	(181,366)
Cash paid to other units	(16,381)	0	0	(16,381)
Net cash provided (used) by noncapital financing activities	<u>134,641</u>	<u>162,251</u>	<u>(181,195)</u>	<u>115,697</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Acquisition and construction of capital assets	(95,588)	(51,736)	(49,898)	(197,222)
Principal paid on long-term debt	(182,624)	(134,953)	0	(317,577)
Interest paid on long-term debt	(67,549)	(126,875)	0	(194,424)
Net cash used by capital and related financing activities	<u>(345,761)</u>	<u>(313,564)</u>	<u>(49,898)</u>	<u>(709,223)</u>
<u>Cash Flows From Investing Activities</u>				
Purchase of investment securities	(733,100)	(407,024)	0	(1,140,124)
Proceeds from maturity of investment securities	828,452	333,951	0	1,162,403
Interest on investments	11,194	8,602	2,031	21,827
Net cash provided (used) by investing activities	<u>106,546</u>	<u>(64,471)</u>	<u>2,031</u>	<u>44,106</u>
Net increase (decrease) in cash and cash equivalents	45,342	(39,903)	22,736	28,175
Cash and cash equivalents at beginning of year (Note 1)	<u>215,316</u>	<u>368,960</u>	<u>415,800</u>	<u>1,000,076</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 260,658</u>	<u>\$ 329,057</u>	<u>\$ 438,536</u>	<u>\$ 1,028,251</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>				
Operating income	\$ 10,305	\$ 55,178	\$ 37,201	\$ 102,684
Adjustments to reconcile operating income to net cash provided by operating activities:				
Interest income on cash accounts	0	0	3	3
Contributions	49,769	0	0	49,769
Depreciation expense	78,909	115,987	212,328	407,224
Change in assets and liabilities:				
Accounts receivable, net	9,954	4,268	897	15,119
Accounts and other payables	(56)	(829)	678	(207)
Accrued expenses	859	1,101	0	1,960
Accrued compensated absences	176	176	691	1,043
Net cash provided by operating activities	<u>\$ 149,916</u>	<u>\$ 175,881</u>	<u>\$ 251,798</u>	<u>\$ 577,595</u>

Non-Cash Capital and Related Financing Activities

During fiscal year 2003/2004, capital assets with a basis of \$6,937 were disposed of in the City Park fund.

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
September 30, 2004

	<u>Pension Trust</u>	<u>Tax Account</u>	<u>Trust and Agency</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 3)	\$ 700,111	\$ 888,593	\$ 2,513	\$ 1,591,217
Investments (Note 3)	0	300,000	0	300,000
Taxes receivable	<u>0</u>	<u>319,456</u>	<u>0</u>	<u>319,456</u>
Total Assets	<u>700,111</u>	<u>1,508,049</u>	<u>2,513</u>	<u>2,210,673</u>
<u>LIABILITIES</u>				
Due to other units	0	165,785	0	165,785
Due to others	0	0	2,270	2,270
Due to other funds (Note 4)	<u>3,117</u>	<u>1,342,264</u>	<u>243</u>	<u>1,345,624</u>
Total Liabilities	<u>3,117</u>	<u>1,508,049</u>	<u>2,513</u>	<u>1,513,679</u>
<u>Net Assets</u>				
Held in trust for pension benefits	<u>\$ 696,994</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 696,994</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
For the Year Ended September 30, 2004

	<u>Pension Trust</u>
<u>Additions</u>	
Contributions:	
Employer contributions	\$ 39,866
Employee contributions	<u>1,688</u>
Total Contributions	41,554
Investment earnings:	
Interest and investment revenue	<u>32,355</u>
Total Additions	<u>73,909</u>
<u>Deductions</u>	
Administrative and general expenses	111
Benefit payments and forfeitures	33,563
Other	<u>6,432</u>
Total Deductions	<u>40,106</u>
Change in net assets	33,803
Net assets - beginning of year	<u>663,191</u>
Net assets - end of year	<u>\$ 696,994</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Tawas conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of City Operations and Fund Types

The City of East Tawas is organized under Michigan's Comprehensive Home Rule City Act. The City operates under an elected City Council (seven members) and provides services to its residents in many areas, including fire protection, water and sewer services, and maintenance of major and local streets. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school district which is a separate governmental entity and is not part of this report.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, board, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Blended Component Units

East Tawas City Park - The East Tawas City Park is legally separate from the City. The City Park is reported as if it were part of the primary government because its sole purpose is to finance, construct and operate the City's park facilities. The financial activities of the East Tawas City Park are recorded in an Enterprise Fund, which is accounted for using the accrual basis of accounting.

East Tawas Building Authority - The City of East Tawas Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

East Tawas Tax Increment Finance Authority – The East Tawas Tax Increment Finance Authority (TIFA) is governed by a five member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the TIFA is reported as if it were part of the primary government because its sole purpose is to finance improvements within the TIFA District of the City of East Tawas. The financial activities of the TIFA are recorded in a Capital Project Fund.

Discretely Presented Component Unit

The component unit column in the Combined Balance Sheet and the Combined Statement of Revenue, Expenses and Changes in Retained Earnings/Fund Balances represents the financial data of the East Tawas Housing Commission as of and for the year ended December 31, 2003. The Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Housing Commission was created by an ordinance of the City of East Tawas to provide safe, sanitary and decent housing for qualifying senior and low income families. Due to the fact that the Housing Commission uses the indirect method of presenting cash flows and the City uses the direct, the statement of cash flows for the Housing Commission is not presented in the combined financial statements of this report. Complete financial statements can be obtained from the East Tawas Housing Commission office.

C. Joint Ventures

The City of East Tawas has entered into several joint ventures with various municipalities described as follows:

1. Tawas Police Authority:

The Tawas Police Authority functions as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established to provide police protection to the constituent municipalities, the City of East Tawas and City of Tawas City and other municipalities by contract. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2004 was \$230,786. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 516 Oak Street, Tawas City, Michigan 48763.

2. Tawas Utility Authority:

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2004 was \$194,695. Complete financial statements can be obtained from the City of East Tawas City Manager's office.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

3. Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the City of East Tawas' share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the City because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 16.44% of the total bond issue of \$7,930,000 or \$1,303,692. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of East Tawas is making payments through ad-valorem taxes and charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The City of East Tawas' contribution for the year ended September 30, 2004 was \$149,565. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,318,985. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds - These funds are used to account for specific governmental revenue (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

City Park Fund – This fund accounts for fees collected for park services provided by the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds, including the Trust and Agency Fund, Tax Collection Fund and Pension Trust Fund.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at September 30, 2004, but were levied to finance 2004-2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Budgets and Budgetary Accounting

The City normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and the Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Receivables

Receivables at September 30, 2004, consist of accounts (fees), interest and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for sewer and water services due from various customers.

K. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds and component units are also reported on the government-wide statement of net assets.

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the governmental-wide financial statements.

M. Inventories

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.

N. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water and sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	25 - 50 years
Land Improvements	10 - 20 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 10 years
Utility Systems	25 - 40 years
Infrastructure	20 - 40 years

O. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration limits specified in the City's termination policy. The City records a liability for sick leave earned at varying rates depending on the City policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "accrued compensated absences payable" in the fund from which the employees who have accumulated leave as paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

P. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for future debt service and perpetual care expenses.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for water, sewer and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

U. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

A. Change in Accounting Principles

For 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; Number 34, "Basic Financial Statements and Management's Discussion and Analysis for

CITY OF EAST TAWAS
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY (CONTINUED)A. Change in Accounting Principles (Continued)

State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the City's programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at September 30, 2004, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major Enterprise funds of the City as it was previously reported.

	<u>Sewer Fund</u>	<u>Water Fund</u>
Retained Earnings September 30, 2003	\$ 1,821,583	\$ 1,701,657
Restatement of contributed capital in accordance with GASB Statement No. 33	1,060,594	594,374
Adjustments to investments in other entities to reflect payments reported as expenses in prior years as a result of the adoption of GASB Statement No. 34 (Including accrued interest set up at September 30, 2003.)	667,380	547,782
Recording of compensated absences in accordance with GASB Statement No. 34	<u>(123)</u>	<u>(123)</u>
Restated Net Assets – September 30, 2003	<u>\$ 3,549,434</u>	<u>\$ 2,843,690</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
<u>Current Assets</u>					
Cash and Cash Equivalents	\$ 1,267,679	\$ 842,119	\$ 1,591,217	\$ 3,701,015	\$ 66,695
Investments	<u>1,447,663</u>	<u>500,319</u>	<u>300,000</u>	<u>2,247,982</u>	<u>0</u>
Total Current Assets	<u>2,715,342</u>	<u>1,342,438</u>	<u>1,891,217</u>	<u>5,948,997</u>	<u>66,695</u>
<u>Restricted Assets</u>					
Cash and Cash Equivalents	0	186,132	0	186,132	0
Investments	<u>0</u>	<u>459,054</u>	<u>0</u>	<u>459,054</u>	<u>0</u>
Total Restricted Assets	<u>0</u>	<u>645,186</u>	<u>0</u>	<u>645,186</u>	<u>0</u>
	<u>\$ 2,715,342</u>	<u>\$ 1,987,624</u>	<u>\$ 1,891,217</u>	<u>\$ 6,594,183</u>	<u>\$ 66,695</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 3,540,422	\$ 66,495
Investments in Municipal Investment Account		
Pooled Funds and Similar Vehicles	3,053,231	0
Petty Cash and Cash on Hand	<u>530</u>	<u>200</u>
Total	<u>\$ 6,594,183</u>	<u>\$ 66,695</u>

Deposits:

Deposits are carried at cost. Deposits of the City are held at various banks in the name of the City. At September 30, 2004, the carrying amounts of the City's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,233,860	\$ 1,233,860
Uninsured – uncollateralized	<u>2,306,562</u>	<u>2,353,756</u>
Total primary government	<u>\$ 3,540,422</u>	<u>\$ 3,587,616</u>

At September 30, 2004, the carrying amounts of the component unit's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 66,495</u>	<u>\$ 66,495</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The City Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

The City's investments are categorized to give an indication of the level of risk assumed by the City at September 30, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterpart y's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at September 30, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
Municipal Investment Account		
Pooled Funds and Similar Vehicles	<u>\$ 3,053,231</u>	<u>\$ 3,053,231</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 4 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of September 30, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 934,128	\$ 440
Major Street Fund	14,709	3,258
Local Street Fund	3,253	0
TIFA Fund	118,306	0
Total Major Governmental Funds	<u>1,070,396</u>	<u>3,698</u>
Non-major Governmental Funds	<u>463</u>	<u>24,703</u>
Major Enterprise Fund:		
Sewer Fund	162,207	663
Water Fund	153,866	678
City Park Fund	<u>0</u>	<u>11,566</u>
Total Major Enterprise Funds	<u>316,073</u>	<u>12,907</u>
Fiduciary Funds	<u>0</u>	<u>1,345,624</u>
	<u>\$ 1,386,932</u>	<u>\$ 1,386,932</u>

The amounts of interfund receivables and payables for the primary government as of September 30, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 11,566	City Park	\$ 11,566
General Fund	5	Major Street Fund	5
General Fund	3,117	Pension Fund	3,117
General Fund	678	Water Fund	678
General Fund	663	Sewer Fund	663
General Fund	4,524	Community Center Fund	4,524
General Fund	200	Cemetery Fund	50
General Fund	50	Trust and Agency Fund	200
General Fund	908,325	Tax Account	908,325
General Fund	5,000	Intragovernmental Service Fund	5,000
Major Street Fund	14,709	Major Street Construction Bond Fund	14,709
Local Street Fund	3,253	Major Street Fund	3,253
Community Center Fund	43	Trust and Agency Fund	43
Water Fund	316	General Fund	316
Water Fund	153,550	Tax Account	153,550
Sewer Fund	124	General Fund	124
Sewer Fund	162,083	Tax Account	162,083
TIFA Fund	118,306	Tax Account	118,306
Cemetery Perpetual Care Fund	<u>420</u>	Cemetery Fund	<u>420</u>
Total	<u>\$ 1,386,932</u>		<u>\$ 1,386,932</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 4 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY (CONTINUED)

<u>Fund</u>	<u>Due from (to) Component Unit</u>
General Fund	\$ <u>10,891</u> *

* The Due from (to) component unit does not offset due to different fiscal year ends between the City and the East Tawas Housing Commission explained as follows:

	<u>Due from (to) Component Unit</u>
Housing Commission's share of payroll and insurance expenditures paid by City General Fund subsequent to December 31, 2003	\$ <u>10,891</u> *

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$70,973,586. The tax rates were 13.6000 mills for operations and 4.7500 mills for debt retirement.

NOTE 6 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all its general employees. The plan is recorded in the general purpose financial statements as a pension trust fund.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by an employee vest immediately and contributions made by the City vest after 5 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. The City is required to contribute an amount equal to 8% of the employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$39,866, which was 8% of its current-year covered payroll. Employees' contributions amounted to \$1,688.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 7 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. All liabilities incurred have been accrued in the financial statements as of September 30, 2004.

NOTE 8 - INVESTMENT IN IOSCO COUNTY WASTEWATER TREATMENT PLANT

The City entered into a joint waste water treatment plant contract with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987. The most current estimate of the City's Share is 38.32% of the total funding bond issue of \$4,250,000 or \$1,628,600. The initial contract amount is recorded as investment in Iosco County Waste Water Treatment Plant in the Sewer Fund of the City because the assets of the joint waste water treatment plant are the property of Iosco County and therefore are not presented in these financial statements.

NOTE 9 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Government Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 366,640	\$ 180,174	\$ 0	\$ 546,814
Capital Assets Being Depreciated:				
Buildings and Improvements	2,930,811	0	0	2,930,811
Land Improvements	19,902	61,290	0	81,192
Machinery and Equipment	618,368	155,400	0	773,768
Vehicles	765,414	0	0	765,414
Infrastructure - Roads	0	987,866	0	987,866
Subtotal	<u>4,334,495</u>	<u>1,204,556</u>	<u>0</u>	<u>5,539,051</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	417,666	71,917	0	489,583
Land Improvements	1,321	1,577	0	2,898
Machinery and Equipment	365,948	51,919	0	417,867
Vehicles	494,819	43,906	0	538,725
Infrastructure - Roads	0	621	0	621
Subtotal	<u>1,279,754</u>	<u>169,940</u>	<u>0</u>	<u>1,449,694</u>
Net Capital Assets Being Depreciated	<u>3,054,741</u>	<u>1,034,616</u>	<u>0</u>	<u>4,089,357</u>
Governmental Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 3,421,381</u>	<u>\$ 1,214,790</u>	<u>\$ 0</u>	<u>\$ 4,636,171</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 9 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 240,565	\$ 0	\$ 0	\$ 240,565
Capital Assets Being Depreciated:				
Land Improvement	3,730,187	46,261	21,657	3,754,791
Buildings	989,775	0	29,695	960,080
Plant and Equipment:				
Distribution and Collection Systems	8,262,743	147,323	0	8,410,066
Machinery, Equipment and Signs	667,966	3,638	63,451	608,153
Subtotal	<u>13,650,671</u>	<u>197,222</u>	<u>114,803</u>	<u>13,733,090</u>
Less Accumulated Depreciation for:				
Land Improvement	1,788,338	168,159	21,316	1,935,181
Buildings	402,986	31,706	23,129	411,563
Plant and Equipment:				
Distribution and Collection Systems	2,792,658	182,327	0	2,974,985
Machinery, Equipment and Signs	<u>542,572</u>	<u>25,032</u>	<u>63,421</u>	<u>504,183</u>
Subtotal	<u>5,526,554</u>	<u>407,224</u>	<u>107,866</u>	<u>5,825,912</u>
Net Capital Assets Being Depreciated	<u>8,124,117</u>	<u>(210,002)</u>	<u>6,937</u>	<u>7,907,178</u>
Business-Type Activities Total				
Capital Assets—Net of Depreciation	<u>\$ 8,364,682</u>	<u>\$ (210,002)</u>	<u>\$ 6,937</u>	<u>\$ 8,147,743</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General government	\$ 74,968
Public safety	53,225
Public works	36,509
Community and economic development	867
Recreation and cultural	<u>4,371</u>
Total Governmental Activities	<u>\$ 169,940</u>
Business-Type Activities	
Sewer	\$ 78,909
Water	115,987
City Park	<u>212,328</u>
Total Business-Type Activities	<u>\$ 407,224</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 9 - CAPITAL ASSETS (CONTINUED)

Capital asset activity of the City of East Tawas Housing Commission for the year ended December 31, 2003 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 196,370	\$ 9,522	\$ 0	\$ 205,892
Capital Assets Being Depreciated:				
Buildings	2,313,321	0	0	2,313,321
Furniture and Equipment	77,612	3,000	3,000	77,612
Leasehold Improvements	449,073	44,851	0	493,924
	2,840,006	47,851	3,000	2,884,857
Less Accumulated Depreciation	1,382,300	(88,812)	3,000	1,468,112
Net Capital Assets Being Depreciated	1,457,706	(40,961)	0	1,416,745
Business-Type Activities Total Capital Assets – Net of Depreciation	\$ 1,654,076	\$ (31,439)	\$ 0	\$ 1,622,637

NOTE 10 - LONG-TERM DEBT

At September 30, 2004, long-term debt consists of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
<u>Primary Government:</u>		
A. Contracts Payable:		
Joint waste water treatment plant with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 38.32% of the total refunding bond issue of \$4,250,000 or \$1,628,600.	\$ 0	\$ 816,216
Joint water board agreement with the City of Tawas City and Baldwin Township through the Iosco County Board of Public Works to finance the cost of improvements and additions of the water supply system, dated June 28, 1977, due in annual installments through July 1, 2016, bearing interest at the rate of 5%. The most current estimate of the City's share is 49% of the total bond issue of \$982,000 or \$481,180.	0	236,670

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Primary Government: (Continued)

	<u>Governmental</u>	<u>Business-Type</u>
A. Contracts Payable: (Continued)		
Joint water supply system agreement with the City of Tawas City, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 16.44% of the total bond issue of \$7,930,000 or \$1,303,692.	\$ 0	\$ 660,066
	<u>0</u>	<u>1,712,952</u>
B. Revenue Bonds:		
\$1,485,000 water supply system revenue bonds, dated July 1, 1999 used for the purpose of defraying the cost of acquiring and constructing extensions and improvements to the City of East Tawas water supply system. The bonds bear interest from 5.3% - 5.6% and are due in annual installments through 2029.	0	1,375,000
\$480,000 Sewage Disposal System Revenue Bonds, dated May 1, 1967 used for the purpose of paying the cost of improvements to the sanitary sewer system. The bonds bear interest from 4.9% - 5% and are due in annual installments through 2005.	0	25,000
\$460,000 Sewage Disposal System Revenue Bonds, dated April 2, 1997 used for the cost of acquiring and constructing sanitary sewer improvements. The bonds bear interest from 4.10% - 5.30% and are due in annual installments through 2009.	<u>0</u>	<u>260,000</u>
	<u>0</u>	<u>1,660,000</u>
C. General Obligation Bonds Payable:		
\$635,000 Limited Tax General Obligation Sewer Refunding Bonds, dated September 1, 1988 for the purpose of advance refunding the County's Iosco County Sewer System #2 General Obligation Bonds. The bonds bear interest at 3.70% - 4.35% and are due in annual installments through 2008.	300,000	0
\$2,000,000 1999 Building Authority Limited Tax General Obligation Bonds, dated June 1, 1999 for the purpose of paying the cost of acquiring, constructing and equipping a community center and City Hall building, which the City has leased in return for the payment of certain rentals pursuant to a Limited Tax Full Faith and Credit General Obligation Contract of Lease between the City and the Authority. The bonds bear interest at 5.10% - 5.40% and are due in annual installments through 2023.	1,830,000	0

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Primary Government: (Continued)

	<u>Governmental</u>	<u>Business-Type</u>
C. General Obligation Bonds Payable: (Continued)		
\$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.	\$ 595,000	\$ 0
	<u>2,725,000</u>	<u>0</u>
Total Primary Government	<u>\$ 2,725,000</u>	<u>\$ 3,372,952</u>

Component Unit

Business-Type Activities:

D. General Obligation Bonds Payable:

Housing Commission - \$1,130,000 1998 General Obligation Unlimited Tax Refunding Bonds, dated September 29, 1998 used for Section 8 Senior Citizens Housing. The bonds bear interest from 3.65% - 4.15% and are due in annual installments through 2009.	\$ 0	\$ 670,000
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E. Compensated Absences

Accumulated and unused sick leave is paid to all City employees who formally retire, up to a maximum of 45 days. The City also has a vacation pay policy which allows employees with at least 10 vacation days to carryover up to a maximum of five days. Accumulated and unused vacation days, personal leave days, and accumulated compensation time is paid to all employees of the Housing Commission who formally retire. Compensated absences are recorded using the vesting method in accordance with Governmental Standards Board Statement 16. The amount of accumulated sick and vacation pay liability for the City and its component unit as of September 30, 2004 was \$32,933 and is a long-term liability.

F. Changes in Long-Term Liabilities

	<u>Balance October 1, 2003</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
General obligation bonds payable	\$ 2,885,000	\$ 0	\$ 160,000	\$ 2,725,000	\$ 165,000
Accrued employee benefits payable	<u>19,576</u>	<u>471*</u>	<u>0</u>	<u>20,047</u>	<u>0</u>
Total primary government	<u>\$ 2,904,576</u>	<u>\$ 471</u>	<u>\$ 160,000</u>	<u>\$ 2,745,047</u>	<u>\$ 165,000</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 10 - LONG-TERM DEBT (CONTINUED)

F. Changes in Long-Term Liabilities (Continued)

	Balance October 1, 2003	Issues or Additions	Payments or Expenditures	Balance September 30, 2004	Due Within One Year
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 1,961,163	\$ 0	\$ 248,211	\$ 1,712,952	\$ 234,647
Revenue bonds	1,745,000	0	85,000	1,660,000	85,000
Accrued employee benefits payable	<u>7,027</u>	<u>1,043*</u>	<u>0</u>	<u>8,070</u>	<u>0</u>
Total primary government	<u>\$ 3,713,190</u>	<u>\$ 1,043</u>	<u>\$ 333,211</u>	<u>\$ 3,381,022</u>	<u>\$ 319,647</u>
Component Unit:					
General obligation bond payable	\$ 770,000	\$ 0	\$ 100,000	\$ 670,000	\$ 100,000
Accrued employee benefits payable	<u>3,068</u>	<u>1,748*</u>	<u>0</u>	<u>4,816</u>	<u>0</u>
Total component unit	<u>\$ 773,068</u>	<u>\$ 1,748</u>	<u>\$ 100,000</u>	<u>\$ 674,816</u>	<u>\$ 100,000</u>

*Represents net of additions and retirements for the year.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of September 30, 2004 are as follows:

Primary Government

General Obligation Bonds Payable

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 165,000	\$ 130,477	\$ 295,477
2006	160,000	123,248	283,248
2007	170,000	115,811	285,811
2008	165,000	108,172	273,172
2009	100,000	102,019	202,019
2010 – 2014	585,000	432,598	1,017,598
2015 – 2019	710,000	271,198	981,198
2020 – 2024	<u>670,000</u>	<u>94,440</u>	<u>764,440</u>
	<u>\$ 2,725,000</u>	<u>\$ 1,377,963</u>	<u>\$ 4,102,963</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 234,647	\$ 90,549	\$ 325,196
2006	231,566	78,245	309,811
2007	252,098	65,454	317,552
2008	248,582	51,553	300,135
2009	264,672	37,077	301,749
2010 – 2014	438,267	46,624	484,891
2015 – 2016	<u>43,120</u>	<u>3,234</u>	<u>46,354</u>
	<u>\$ 1,712,952</u>	<u>\$ 372,736</u>	<u>\$ 2,085,688</u>

Revenue Bonds Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 85,000	\$ 88,359	\$ 173,359
2006	75,000	84,242	159,242
2007	80,000	80,342	160,342
2008	80,000	76,151	156,151
2009	110,000	71,262	181,262
2010 – 2014	200,000	316,960	516,960
2015 – 2019	260,000	257,910	517,910
2020 – 2024	340,000	178,426	518,426
2025 – 2029	<u>430,000</u>	<u>73,631</u>	<u>503,631</u>
	<u>\$ 1,660,000</u>	<u>\$ 1,227,283</u>	<u>\$ 2,887,283</u>

Component Unit

General Obligation Bond Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 100,000	\$ 27,158	\$ 127,158
2006	105,000	23,157	128,157
2007	110,000	18,958	128,958
2008	115,000	14,557	129,557
2009	120,000	9,900	129,900
2010	<u>120,000</u>	<u>4,980</u>	<u>124,980</u>
	<u>\$ 670,000</u>	<u>\$ 98,710</u>	<u>\$ 768,710</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 11 - OPERATING TRANSFERS

During 2004, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 282,575	\$ 223,007
Major Street Fund	538,401	74,491
Local Street Fund	20,000	0
TIFA Fund	0	234,730
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>182,575</u>
Total Major Funds	840,976	714,803
Nonmajor Governmental Funds	<u>344,868</u>	<u>471,041</u>
	<u>\$ 1,185,844</u>	<u>\$ 1,185,844</u>

During 2004, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	\$ 142,575	City Park Fund	\$ 142,575
General Fund	140,000	TIFA Fund	140,000
Major Street Fund	67,500	General Fund	67,500
Major Street Fund	470,901	Major Street Construction Fund	470,901
Local Street Fund	20,000	Major Street Fund	20,000
Cemetery Fund	140	Cemetery Perpetual Care	140
Community Center Fund	40,000	City Park Fund	40,000
Community Center Fund	45,507	General Fund	45,507
Major Street Construction Bond Fund	54,491	Major Street Fund	54,491
Iosco County Sewer System #2	94,730	TIFA Fund	94,730
Intragovernmental Service Fund	<u>110,000</u>	General Fund	<u>110,000</u>
Total	<u>\$ 1,185,844</u>	Total	<u>\$ 1,185,844</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

During the year ended September 30, 2004, the City incurred expenditures in the General and Special Revenue Funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Attorney	\$ 35,000	\$ 37,962	\$ 2,962
General Fund/Police Department	\$ 230,000	\$ 230,786	\$ 786
General Fund/Capital Outlay	\$ 179,200	\$ 180,174	\$ 974
General Fund/Operating Transfers Out	\$ 223,006	\$ 223,007	\$ 1
Major Street Fund/Traffic Services	\$ 5,775	\$ 6,150	\$ 375
TIFA Fund/Operating Transfers Out	\$ 233,730	\$ 234,730	\$ 1,000

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three Enterprise Funds. Segment information for the year ended September 30, 2004 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>City Park Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$ 367,072	\$ 390,610	\$ 616,853	\$ 1,374,535
Depreciation expense	\$ 78,909	\$ 115,987	\$ 212,328	\$ 407,224
Operating income	\$ 10,305	\$ 55,178	\$ 37,201	\$ 102,684
Change in net assets	\$ 165,150	\$ 108,125	\$ (150,277)	\$ 122,998
Property, plant and equipment:				
Additions	\$ 95,588	\$ 51,736	\$ 49,898	\$ 197,222
Net working capital	\$ 179,527	\$ 393,148	\$ 424,208	\$ 996,883
Bond and Other Long-term Liabilities:				
Payable from operating revenue	\$ 816,515	\$ 897,035	\$ 7,472	\$ 1,721,022
Payable from other sources	\$ 285,000	\$ 1,375,000	\$ 0	\$ 1,660,000
Total net assets	\$ 3,714,584	\$ 2,951,815	\$ 3,009,623	\$ 9,676,022

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 15 - RESTRICTED ASSETS AND RESERVES

The City is required, under Ordinance No. 203 on the 1967 revenue bond issue, to maintain certain restricted assets in the Sewer Fund. The ordinance provides that a "Bond and Interest Redemption Fund" be established with quarterly deposits for payment of principal and interest in an amount equal to at least the sum of one-half the amount due on the next ensuing interest due date and one-fourth of the principal next maturing.

The ordinance also requires that a "Bond Reserve Account" be established within the "Bond and Interest Redemption Fund." Quarterly deposits have previously been required under Ordinance No. 158 and the sum of \$43,000 has accumulated in both the Water and Sewer Funds. The monies so used are required to be used solely for payment of principal and interest on bonds that would otherwise be in default. Any monies so used are required to be replaced with the first available revenues not needed for operation and maintenance or for current principal and interest requirements.

The City is also required under Ordinance No. 203 to have established within the Sewer Fund a "Replacement Fund" for the purpose of making major repairs and replacements to the system. Any monies so used are required to be replaced with the first available revenues not needed to fulfill the above requirements. The balance of said account need not exceed the sum of \$15,000.

The City is required, under the 1999 Water Supply System Revenue Bonds, to maintain certain restricted assets in the Water Fund. The Bond provides that a Bond Reserve Account be established "at the lesser of" (1) the maximum annual debt service due in the current or any future year (2) 125% of the average annual debt service or (3) 10% of the principal amount of the Bonds. The City has met these requirements for the year ended September 30, 2004.

NOTE 16- CONTINGENCIES

The City is a defendant in a Zoning Board of Appeals sign variance denial with a local business. The City denied a signage variance request and the local business has appealed that denial with the Michigan Supreme Court, which is currently pending. If the City is unsuccessful in defending this lawsuit, it could be liable for attorney fees paid by the plaintiff and possible other miscellaneous costs and expenses.

The City is a defendant in a Tax Tribunal proceeding for tax years 1997-2004. The plaintiff is seeking a reduction in the taxable value of its property. This case is presently scheduled for pre-hearing in February 2005 and the parties are awaiting a possible resolution by the Michigan Tax Tribunal, the Court of Appeals and possibly the Michigan Supreme Court. The City's liability, if any, would be a refund of its millage computed upon any reduction in taxable value which might be eventually awarded.

The City is a defendant in a Tax Tribunal proceeding for tax years 2002 - 2004. The plaintiff is seeking a reduction in the taxable value of three parcels of property. The tax appeals in the Tax Tribunal have been placed in abeyance pending final resolution of the plaintiff's bankruptcy proceeding, which it filed with the United States Bankruptcy Court under Chapter 11 of the Bankruptcy Code on July 6, 2004. The City's liability, if any, would be a refund of its millage computed upon any reduction in taxable value which might eventually be awarded.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 17 - DEFERRED COMPENSATION PLAN

The City offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 866,398	\$ 871,500	\$ 872,885	\$ 1,385
State grants and revenue	324,472	309,000	309,325	325
Charges for services	83,750	87,150	85,862	(1,288)
Licenses and permits	1,400	1,450	1,671	221
Interest and rentals	126,440	122,690	130,950	8,260
Other revenue	6,200	44,875	47,990	3,115
Total revenue	<u>1,408,660</u>	<u>1,436,665</u>	<u>1,448,683</u>	<u>12,018</u>
<u>Expenditures</u>				
Current:				
General government				
City council	55,350	62,950	57,051	5,899
Board of canvassers	100	125	125	0
Elections	4,500	4,225	3,576	649
Administration	70,700	75,000	69,491	5,509
Assessor	53,060	51,960	49,224	2,736
Attorney	35,000	35,000	37,962	(2,962)
Board of review	675	675	565	110
Clerk	35,950	40,400	40,098	302
Treasurer	42,750	46,925	44,975	1,950
Buildings and grounds	212,775	207,250	193,517	13,733
Other general government	6,000	6,900	5,387	1,513
Public safety				
Police department	230,000	230,000	230,786	(786)
Fire protection	114,825	122,075	120,225	1,850
Public works				
Highways, streets and bridges	223,500	223,300	188,392	34,908
Street lighting	37,500	37,500	34,794	2,706
Sanitation	112,050	111,050	109,628	1,422
Parking system	10,500	10,525	6,616	3,909
Community and economic development				
Planning commission	34,000	34,800	29,612	5,188
Economic development	20,950	19,500	17,046	2,454
Recreation and cultural				
Library	34,900	35,150	32,201	2,949
Capital outlay	0	179,200	180,174	(974)
Total expenditures	<u>1,335,085</u>	<u>1,534,510</u>	<u>1,451,445</u>	<u>83,065</u>
Excess of revenue over (under) expenditures	<u>73,575</u>	<u>(97,845)</u>	<u>(2,762)</u>	<u>95,083</u>
Other Financing Sources (Uses):				
Sale of fixed assets	0	100,000	105,000	5,000
Operating transfers in	142,575	281,575	282,575	1,000
Operating transfers out	(216,150)	(223,006)	(223,007)	(1)
Total other financing sources (uses)	<u>(73,575)</u>	<u>158,569</u>	<u>164,568</u>	<u>5,999</u>
Excess of revenue and other sources over expenditures and other uses	0	60,724	161,806	101,082
Fund balances - beginning of year	<u>877,654</u>	<u>877,654</u>	<u>877,654</u>	<u>0</u>
Fund balances - end of year	<u>\$ 877,654</u>	<u>\$ 938,378</u>	<u>\$ 1,039,460</u>	<u>\$ 101,082</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 MAJOR STREET FUND - SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Federal grants	\$ 79,900	\$ 823,116	\$ 337,247	\$ (485,869)
State grants and revenue	194,150	366,209	273,113	(93,096)
Interest and rentals	1,000	1,200	953	(247)
Total revenue	<u>275,050</u>	<u>1,190,525</u>	<u>611,313</u>	<u>(579,212)</u>
<u>Expenditures</u>				
Current:				
Public works				
Higways, streets and bridges:				
Construction	5,533	11,456	6,607	4,849
Routine maintenance	53,700	70,800	68,166	2,634
Traffic services	6,350	5,775	6,150	(375)
Winter maintenance	42,000	50,975	50,808	167
Administration	7,725	8,075	7,248	827
Trunkline maintenance	18,850	18,700	16,660	2,040
Capital outlay	<u>827,267</u>	<u>1,712,919</u>	<u>987,866</u>	<u>725,053</u>
Total expenditures	<u>961,425</u>	<u>1,878,700</u>	<u>1,143,505</u>	<u>735,195</u>
Excess of revenue over (under) expenditures	<u>(686,375)</u>	<u>(688,175)</u>	<u>(532,192)</u>	<u>155,983</u>
Other Financing Sources (Uses):				
Operating transfers in	697,500	697,500	538,401	(159,099)
Operating transfers out	<u>(20,000)</u>	<u>(74,500)</u>	<u>(74,491)</u>	<u>9</u>
Total other financing sources (uses)	<u>677,500</u>	<u>623,000</u>	<u>463,910</u>	<u>(159,090)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(8,875)</u>	<u>(65,175)</u>	<u>(68,282)</u>	<u>(3,107)</u>
Fund balances - beginning of year	<u>207,739</u>	<u>207,739</u>	<u>207,739</u>	<u>0</u>
Fund balances - end of year	<u>\$ 198,864</u>	<u>\$ 142,564</u>	<u>\$ 139,457</u>	<u>\$ (3,107)</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 LOCAL STREET FUND - SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State grants and revenue	\$ 73,425	\$ 79,600	\$ 79,631	\$ 31
Interest and rentals	<u>2,000</u>	<u>2,200</u>	<u>2,294</u>	<u>94</u>
Total revenue	<u>75,425</u>	<u>81,800</u>	<u>81,925</u>	<u>125</u>
<u>Expenditures</u>				
Current:				
Public works				
Higways, streets and bridges:				
Routine maintenance	97,050	60,000	33,971	26,029
Traffic services	3,550	2,400	1,481	919
Winter maintenance	17,200	20,900	20,775	125
Administration	<u>7,625</u>	<u>7,975</u>	<u>7,251</u>	<u>724</u>
Total expenditures	<u>125,425</u>	<u>91,275</u>	<u>63,478</u>	<u>27,797</u>
Excess of revenue over (under) expenditures	(50,000)	(9,475)	18,447	27,922
Other Financing Sources:				
Operating transfers in	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures	(30,000)	10,525	38,447	27,922
Fund balances - beginning of year	<u>215,835</u>	<u>215,835</u>	<u>215,835</u>	<u>0</u>
Fund balances - end of year	<u>\$ 185,835</u>	<u>\$ 226,360</u>	<u>\$ 254,282</u>	<u>\$ 27,922</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FEDERAL PROJECT FUND - SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and rentals	\$ 28,240	\$ 28,240	\$ 27,394	\$ (846)
Other revenue	<u>78,489</u>	<u>78,489</u>	<u>76,282</u>	<u>(2,207)</u>
Total revenue	106,729	106,729	103,676	(3,053)
<u>Expenditures</u>				
Current:				
Community and economic development	<u>151,000</u>	<u>151,000</u>	<u>84,771</u>	<u>66,229</u>
Excess of revenue over (under) expenditures	(44,271)	(44,271)	18,905	63,176
Fund balances - beginning of year	<u>342,713</u>	<u>342,713</u>	<u>342,713</u>	<u>0</u>
Fund balances - end of year	<u>\$ 298,442</u>	<u>\$ 298,442</u>	<u>\$ 361,618</u>	<u>\$ 63,176</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 TIFA FUND - SPECIAL REVENUE FUND
For the Year Ended September 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 246,800	\$ 245,585	\$ 245,586	\$ 1
Interest and rentals	<u>1,500</u>	<u>2,000</u>	<u>4,303</u>	<u>2,303</u>
Total revenue	248,300	247,585	249,889	2,304
<u>Expenditures</u>				
Capital outlay	<u>140,000</u>	<u>140,000</u>	<u>47,577</u>	<u>92,423</u>
Excess of revenue over expenditures	108,300	107,585	202,312	94,727
Other Financing Uses:				
Operating transfers out	<u>(94,730)</u>	<u>(233,730)</u>	<u>(234,730)</u>	<u>(1,000)</u>
Excess of revenue over (under) expenditures and other uses	13,570	(126,145)	(32,418)	93,727
Fund balances - beginning of year	<u>527,552</u>	<u>527,552</u>	<u>527,552</u>	<u>0</u>
Fund balances - end of year	<u>\$ 541,122</u>	<u>\$ 401,407</u>	<u>\$ 495,134</u>	<u>\$ 93,727</u>

OTHER INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
September 30, 2004

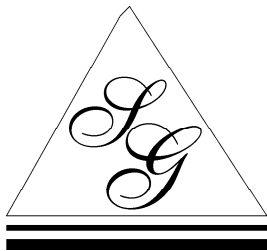
	Cemetery Fund	Community Center	Greenwood Cemetery Chapel	Intragovernmental Service Fund	Iosco County Sewer System #2	Building Authority Fund	Major Street Construction Bond	Major Street Construction Fund	Cemetery Perpetual Care	Total Other Governmental Funds
<u>ASSETS</u>										
Cash and cash equivalents	\$ 18,610	\$ 16,629	\$ 6,259	\$ 314	\$ 0	\$ 0	\$ 2,150	\$ 146,027	\$ 13,031	\$ 203,020
Investments	0	0	0	152,539	0	523	0	0	50,846	203,908
Accounts receivable	400	0	0	0	0	0	0	0	0	400
Due from other funds	0	43	0	0	0	0	0	0	420	463
Total Assets	<u>\$ 19,010</u>	<u>\$ 16,672</u>	<u>\$ 6,259</u>	<u>\$ 152,853</u>	<u>\$ 0</u>	<u>\$ 523</u>	<u>\$ 2,150</u>	<u>\$ 146,027</u>	<u>\$ 64,297</u>	<u>\$ 407,791</u>
<u>LIABILITIES AND FUND EQUITY</u>										
Liabilities:										
Accounts payable	\$ 0	\$ 3,016	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,016
Accrued liabilities	38	980	0	0	0	0	0	0	0	1,018
Due to other funds	470	4,524	0	5,000	0	0	0	14,709	0	24,703
Total liabilities	<u>508</u>	<u>8,520</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,709</u>	<u>0</u>	<u>28,737</u>
<u>Fund Equity</u>										
Fund balances:										
Reserved for:										
Debt service	0	0	0	0	0	523	2,150	0	0	2,673
Perpetual care	0	0	0	0	0	0	0	0	64,297	64,297
Unreserved, reported in:										
Special revenue funds	18,502	8,152	6,259	147,853	0	0	0	0	0	180,766
Capital projects fund	0	0	0	0	0	0	0	131,318	0	131,318
Total fund equity	<u>18,502</u>	<u>8,152</u>	<u>6,259</u>	<u>147,853</u>	<u>0</u>	<u>523</u>	<u>2,150</u>	<u>131,318</u>	<u>64,297</u>	<u>379,054</u>
Total Liabilities and Fund Equity	<u>\$ 19,010</u>	<u>\$ 16,672</u>	<u>\$ 6,259</u>	<u>\$ 152,853</u>	<u>\$ 0</u>	<u>\$ 523</u>	<u>\$ 2,150</u>	<u>\$ 146,027</u>	<u>\$ 64,297</u>	<u>\$ 407,791</u>

CITY OF EAST TAWAS

Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	Cemetery Fund	Community Center	Greenwood Cemetery Chapel	Intragovernmental Service Fund	Iosco County Sewer System #2	Building Authority Fund	Major Street Construction Bond	Major Street Construction Fund	Cemetery Perpetual Care	Total Other Governmental Funds
Revenue										
Charges for services	\$ 13,301	\$ 14,586	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 27,887
Interest and rentals	111	14,850	42	3,646	0	142,621	16	6,306	958	168,550
Other revenue	550	983	0	0	0	0	0	0	6,450	7,983
Total revenue	<u>13,962</u>	<u>30,419</u>	<u>42</u>	<u>3,646</u>	<u>0</u>	<u>142,621</u>	<u>16</u>	<u>6,306</u>	<u>7,408</u>	<u>204,420</u>
Expenditures										
Current:										
General government	11,936	0	0	0	0	0	0	0	60	11,996
Recreation and cultural	0	96,864	0	0	0	0	0	0	0	96,864
Capital outlay	0	13,713	0	155,400	0	0	0	0	0	169,113
Debt service:										
Principal	0	0	0	0	80,000	45,000	35,000	0	0	160,000
Interest and fiscal charges	0	0	0	0	14,730	97,575	19,741	0	0	132,046
Total expenditures	<u>11,936</u>	<u>110,577</u>	<u>0</u>	<u>155,400</u>	<u>94,730</u>	<u>142,575</u>	<u>54,741</u>	<u>0</u>	<u>60</u>	<u>570,019</u>
Excess of revenue over (under) expenditures	<u>2,026</u>	<u>(80,158)</u>	<u>42</u>	<u>(151,754)</u>	<u>(94,730)</u>	<u>46</u>	<u>(54,725)</u>	<u>6,306</u>	<u>7,348</u>	<u>(365,599)</u>
Other Financing Sources (Uses):										
Operating transfers in	140	85,507	0	110,000	94,730	0	54,491	0	0	344,868
Operating transfers out	0	0	0	0	0	0	0	(470,901)	(140)	(471,041)
Total other financing sources (uses)	<u>140</u>	<u>85,507</u>	<u>0</u>	<u>110,000</u>	<u>94,730</u>	<u>0</u>	<u>54,491</u>	<u>(470,901)</u>	<u>(140)</u>	<u>(126,173)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>2,166</u>	<u>5,349</u>	<u>42</u>	<u>(41,754)</u>	<u>0</u>	<u>46</u>	<u>(234)</u>	<u>(464,595)</u>	<u>7,208</u>	<u>(491,772)</u>
Fund balances - beginning of year	<u>16,336</u>	<u>2,803</u>	<u>6,217</u>	<u>189,607</u>	<u>0</u>	<u>477</u>	<u>2,384</u>	<u>595,913</u>	<u>57,089</u>	<u>870,826</u>
Fund balances - end of year	<u>\$ 18,502</u>	<u>\$ 8,152</u>	<u>\$ 6,259</u>	<u>\$ 147,853</u>	<u>\$ 0</u>	<u>\$ 523</u>	<u>\$ 2,150</u>	<u>\$ 131,318</u>	<u>\$ 64,297</u>	<u>\$ 379,054</u>



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Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

December 6, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of East Tawas
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawas, as of and for the year ended September 30, 2004, which collectively comprise the City of East Tawas' basic financial statements and have issued our report thereon dated December 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

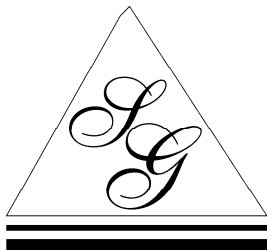
As part of obtaining reasonable assurance about whether the City of East Tawas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the City of East Tawas in a separate letter dated December 6, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of East Tawas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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December 6, 2004

Members of the City Council
City of East Tawas
Iosco County, Michigan

Dear Council Members:

We have audited the financial statements of the City of East Tawas for the year ended September 30, 2004, and have issued our report thereon dated December 6, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 12, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of East Tawas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of East Tawas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of East Tawas are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the City changed accounting policies as a result of adopting Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended September 30, 2004. We noted no transactions entered into by the City of East Tawas during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of East Tawas' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of East Tawas, either individually or in the aggregate, indicate matters that could have a significant effect on the City of East Tawas' financial reporting process.

Members of the City Council
City of East Tawas
December 6, 2004
Page Two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of East Tawas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance as described in the fourth paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations:

Budget Control

We noted that the City's General and Special Revenue Funds included expenditures in some functions that exceeded appropriated amounts. We recommend that the City Council continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the City.

This information is intended solely for the use of management, the City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.